CONSOLIDATED HCI HOLDINGS CORPORATION

THIRD QUARTER REPORT

3 For The Nine Months Ended
June 30, 2014

Consolidated HCI Holdings Corporation

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51 – 102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of Consolidated HCI Holdings Corporation (the "Company") for the nine months ended June 30, 2014 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim consolidated financial statements in accordance with the standards established by The Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

CONSOLIDATED HCI HOLDINGS CORPORATION

INTERIM CONSOLIDATED BALANCE SHEETS

(unaudited, in thousands of Canadian dollars)

	June 30 2014	September 30 2013
ASSETS		
Non-current assets		
Investment property (note 6)	**$ 11,056**	$ 10,705
Investment in syndicated mortgage loans (note 11(a))	**372**	968
Amounts receivable (note 9)	**248**	235
Tenant inducements (note 10)	**358**	377
	12,034	12,285
Current assets		
Cash and cash equivalents (note 8(a))	**1,721**	3,082
Restricted cash (note 8(b))	**929**	1,015
Amounts receivable (note 9)	**43**	255
Investment in syndicated mortgage loans (note 11(a))	**1,139**	341
Short-term investments (note 11(b))	**38,826**	37,417
Marketable securities (note 11(c))	**3,479**	2,766
Income tax recoverable	**–**	445
Tenant inducements (note 10)	**24**	22
Other	**90**	82
	46,251	45,425
Total assets	**$ 58,285**	$ 57,710
LIABILITIES		
Non-current liabilities		
Loan payable (note 12)	**$ 3,403**	$ 3,579
Accounts payable and accrued liabilities (note 17)	**50**	70
Deferred income taxes (note 13)	**1,469**	1,329
	4,922	4,978
Current liabilities		
Loan payable (note 12)	**236**	236
Accounts payable and accrued liabilities (note 17)	**533**	1,020
Income tax payable	**5**	–
	774	1,256
Total liabilities	**5,696**	6,234
SHAREHOLDERS' EQUITY		
Capital stock	**35,890**	35,890
Retained earnings	**15,348**	14,860
Accumulated other comprehensive income	**1,351**	726
Total shareholders' equity	**52,589**	51,476
Total liabilities and shareholders' equity	**$ 58,285**	$ 57,710

Contingencies and commitments (note 18)

The accompanying notes are an integral part of these interim consolidated financial statements.

CONSOLIDATED HCI HOLDINGS CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, in thousands of Canadian dollars)

	Capital stock	**Retained earnings**	**Accumulated other comprehensive income**	**Total equity**
Balance – October 1, 2013	**$ 35,890**	**$ 14,860**	**$ 726**	**$ 51,476**
Net earnings for the period	**–**	**488**	**–**	**488**
Other comprehensive income	**–**	**–**	**625**	**625**
Balance – June 30, 2014	**$ 35,890**	**$ 15,348**	**$ 1,351**	**$ 52,589**

	Capital stock	Retained earnings	Accumulated other comprehensive income	Total equity
Balance – October 1, 2012	$ 35,890	$ 7,943	$ 274	$ 44,107
Net earnings for the period	–	6,856	–	6,856
Other comprehensive income	–	–	423	423
Balance – June 30, 2013	$ 35,890	$ 14,799	$ 697	$ 51,386

The accompanying notes are an integral part of these interim consolidated financial statements.

CONSOLIDATED HCI HOLDINGS CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited, in thousands of Canadian dollars, except share and per share amounts)

	Three months ended		Nine months ended	
	June 30 2014	June 30 2013	**June 30 2014**	June 30 2013
Housing revenue	**$ –**	$ 764	**$ –**	$ 1,293
Housing cost of sales (note 7)	**5**	748	**27**	1,241
Gross profit (loss) on housing	**(5)**	16	**(27)**	52
Investment property revenue (note 17)	**230**	186	**659**	551
Investment property operating expenses	**47**	82	**164**	304
Net rental income	**183**	104	**495**	247
Other income (expenses)				
General and administrative (note 17)	**(238)**	(198)	**(692)**	(637)
Interest and other income	**194**	459	**733**	1,030
Interest expense	**(38)**	(40)	**(112)**	(132)
Amortization of leasing costs	**(2)**	–	**(8)**	(8)
Fair value gain on investment property (note 6)	**20**	548	**200**	797
	(64)	769	**121**	1,050
Earnings before income taxes	**114**	889	**589**	1,349
Recovery of (provision for) income taxes (note 13)	**(26)**	(168)	**(101)**	5,507
Net earnings for the period	**$ 88**	$ 721	**$ 488**	$ 6,856
Basic and diluted earnings per share	**$ –**	$ 0.03	**$ 0.02**	$ 0.33
Weighted average number of shares outstanding	**20,575,866**	20,575,866	**20,575,866**	20,575,866

The accompanying notes are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	June 30 2014	June 30 2013	**June 30 2014**	June 30 2013
Net earnings for the period	**$ 88**	$ 721	**$ 488**	$ 6,856
Other comprehensive income, net of income tax, which will recycle through profit				
Unrealized gains arising during the period on available-for-sale financial assets	**61**	290	**625**	423
Comprehensive income for the period	**$ 149**	$ 1,011	**$ 1,113**	$ 7,279

The accompanying notes are an integral part of these interim consolidated financial statements.

CONSOLIDATED HCI HOLDINGS CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

	Nine months ended **June 30 2014**	June 30 2013
Cash provided by (used in)		
OPERATING ACTIVITIES		
Net earnings for the period	**$ 488**	$ 6,856
Add (deduct): Non-cash items (note 16(a))	**(2)**	(776)
Costs recovered through sales of real estate	**–**	1,241
Expenditures on housing under development and land	**–**	(288)
Leasing costs incurred	**–**	(28)
Changes in non-cash operating balances (note 16(b))	**148**	8,402
	634	15,407
INVESTING ACTIVITIES		
Additions to investment property	**(159)**	(78)
Investment in syndicated mortgage loans		
Purchases	**(540)**	–
Maturities	**289**	4,059
Short-term investments		
Purchases	**(109,950)**	(61,561)
Sales or maturities	**108,457**	44,486
Restricted cash	**86**	83
	(1,817)	(13,011)
FINANCING ACTIVITIES		
Repayment of mortgage loan on investment property	**(178)**	(179)
(Decrease) increase in cash and cash equivalents during the period	**(1,361)**	2,217
Cash and cash equivalents, beginning of the period (note 8(a))	**3,082**	2,397
Cash and cash equivalents, end of the period (note 8(a))	**$ 1,721**	$ 4,614

SUPPLEMENTARY INFORMATION (note 16(c))

The accompanying notes are an integral part of these interim consolidated financial statements.

1. Description of Business

Consolidated HCI Holdings Corporation and its subsidiaries (together "CHCI" or the "Company") is an Ontario based, publicly traded real estate development company trading on the Toronto Stock Exchange under the symbol CXA.B. The activities of the Company include the redevelopment of an existing industrial property in Vaughan, Ontario for industrial and commercial uses to lease to others. The Company also invests in syndicated mortgage loans, which are secured by real property developments of other land developers and builders and, until September 30, 2013, conducted activities through various joint operations in the building and selling of new homes on land purchased from others. The address of its registered office is 40 King Street West, Suite 2100, Toronto, Ontario.

The Board of Directors approved the interim consolidated financial statements on August 7, 2014.

2. Basis of Preparation and Changes in Accounting Policies

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim consolidated financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting.

The policies applied in these interim consolidated financial statements are based on IFRS policies effective as of June 30, 2014.

These interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended September 30, 2013.

The following changes in accounting policies were implemented by the Company during the nine month period ended June 30, 2014:

(a) IFRS 10 – Consolidated Financial Statements

This standard requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation – Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The Company assessed its consolidation conclusions effective October 1, 2013 and determined that adoption of IFRS 10 did not result in any change in the consolidation status of any of its investees.

(b) IFRS 11 – Joint Arrangements

This standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. The Company recognizes its share of the assets, liabilities, revenues and expenses of its joint operations. The Company does not have any investments classified as a joint venture. The Company has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any change in the accounting policy for its joint arrangements.

(c) IFRS 12 – Disclosure of Interests in Other Entities

This standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, and non-consolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities. The Company adopted IFRS 12 effective October 1, 2013. The adoption of IFRS 12 results in the disclosures of condensed financial information of associates, subsidiaries and joint arrangements in the Company's consolidated financial statements for the year ending September 30, 2014.

(d) IFRS 13 – Fair Value Measurement

This standard is a comprehensive standard for fair value measurement and disclosure for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. The Company adopted IFRS 13 effective October 1, 2013, on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments.

3. Critical Accounting Estimates

The preparation of the interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates and judgments that could have a material impact on the interim consolidated financial statements are addressed below.

(a) Impairment of Investments in Syndicated Mortgage Loans

The Company reviews its investments in individual syndicated mortgage loans on a regular basis to evaluate the risk of default on any outstanding loan, which would result in the ultimate realization of less than the balance owing. Factors such as the prospect for completion of the development and sale of the underlying real property security and the present value of estimated future cash flows from the project are taken into consideration when estimating impairment.

(b) Fair Value of Investment Property

The Company's investment property is comprised of two components, a rental building and adjoining rental land. For the nine months ended June 30, 2014, fair values were determined internally using the "Overall Capitalization Method." This method applies overall capitalization rates, as detailed in note 6, to stabilized net operating income and incorporates allowances for vacancy.

For the year ended September 30, 2013, the fair value of the investment property was determined by qualified external valuation professionals. The valuation of the building was done using the "Discounted Cash Flow Method" in which the revenue and expenses are projected over the anticipated term of the investment. The valuation of the rental land was done using the "Overall Capitalization Rate Method" whereby the stabilized net operating income is capitalized at the requisite overall capitalization rate. Capitalization rates employed are detailed in note 6.

(c) Income Taxes

The Company is subject to income taxes in one jurisdiction. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax provisions of future periods. The measurement of deferred income tax liabilities at the interim consolidated balance sheet dates requires management to make estimates and assumptions regarding the timing of when temporary differences are expected to reverse. Actual results could differ from those estimates.

4. Accounting Standards Issued and Yet to Be Applied

Unless otherwise noted, the following new standards and amendments to existing standards apply to annual periods beginning on or after January 1, 2014, unless otherwise noted, with earlier adoption permitted. The Company has not yet assessed the impact of these new standards and amendments on its interim consolidated financial statements.

(a) IFRS 9 – Financial Instruments

This standard was issued in November 2009 and is effective for annual periods beginning on or after January 1, 2015. The standard was subsequently amended to remove the mandatory adoption date. The standard addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

(b) IFRIC 21 – Levies

This is an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event giving rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is applicable to annual reporting periods beginning on or after January 1, 2014.

5. Segmented Information

The Company operates in southern Ontario, in the Greater Toronto Area, and surrounding communities and has three reportable segments: the construction and operation of investment properties, the construction and sale of residential units and the investment in syndicated mortgage loans. The results of operations and amounts invested in these segments are as follows:

Three months ended June 30

	Revenue		Earnings	
	2014	2013	**2014**	2013
Investment property	**$ 250**	$ 186	**$ 163**	$ 612
Residential construction	**2**	770	**(3)**	22
Syndicated mortgage loans	**45**	318	**45**	318
Unallocated amounts:				
Interest income	**147**	135	**147**	135
	$ 444	$ 1,409		
General and administrative expenses			**(238)**	(198)
Income tax provision			**(26)**	(168)
Net earnings for the period			**$ 88**	$ 721

Nine months ended June 30

	Revenue		Earnings	
	2014	2013	**2014**	2013
Investment property	**$ 859**	$ 551	**$ 575**	$ 904
Residential construction	**6**	1,319	**(21)**	78
Syndicated mortgage loans	**275**	640	**275**	640
Unallocated amounts:				
Interest income	**452**	364	**452**	364
	$ 1,592	$ 2,874		
General and administrative expenses			**(692)**	(637)
Income tax recovery (provision)			**(101)**	5,507
Net earnings for the period			**$ 488**	$ 6,856

Identifiable Assets

	Investment property	Residential construction	Syndicated mortgage loans	Unallocated corporate assets	Total assets
June 30, 2014	**$ 11,888**	**$ 1,646**	**$ 1,511**	**$ 43,240**	**$ 58,285**
September 30, 2013	$ 11,716	$ 1,677	$ 1,309	$ 43,008	$ 57,710

Identifiable Liabilities

	Investment property	Residential construction	Syndicated mortgage loans	Unallocated corporate liabilities	Total liabilities
June 30, 2014	**$ 3,797**	**$ 174**	**$ –**	**$ 1,725**	**$ 5,696**
September 30, 2013	$ 4,186	$ 183	$ –	$ 1,865	$ 6,234

Capital expenditures in the investment properties segment for the nine months ended June 30, 2014 amounted to $159 (2013 - $106).

6. Investment Property

		June 30 2014		September 30 2013
Balance, beginning of the period	**$**	**10,705**	$	9,800
Amortization of leasing costs		**(8)**		(11)
Additions		**159**		192
Expropriation proceeds		**–**		(108)
Fair value gain		**200**		798
Leasing costs incurred		**–**		34
Balance, end of the period	**$**	**11,056**	$	10,705

The basis of valuation of the Company's investment property is set out in note 3(b). The capitalization rates used in valuing the investment property are as follows:

	June 30 2014	September 30 2013
Rental building	**7.15%**	8.00%
Adjoining land	**5.75%**	5.75%

Presented separately from investment property are tenant inducements (note 10) of $382 (September 30, 2013 - $399) and net straight-line rent receivable (note 9) of $260 (September 30, 2013 - $246). The fair value of the investment property has been reduced by these amounts presented separately.

The Company's investment property, exclusive of the adjoining land component referred to above, which is unencumbered, with a fair value of $10,041 (September 30, 2013 - $9,855) has been pledged as security for a mortgage loan payable (note 12).

7. Housing Under Construction

As at September 30, 2013, the Company had completed and closed all of its housing inventory. During the nine months ended June 30, 2014, the Company recorded costs resulting from changes to September 30, 2013 estimates of costs to complete completed projects.

8. Cash and Cash Equivalents and Restricted Cash

(a) Cash and cash equivalents consist of the following:

	June 30 2014	September 30 2013
Cash	**$ 1,016**	$ 2,269
Term deposits	**705**	813
	$ 1,721	$ 3,082

Cash and cash equivalents include unrestricted cash and term deposits with a maturity of three months or less from the date of acquisition.

Included in cash and cash equivalents is the Company's proportionate share of cash and cash equivalents of the Company's proportionately consolidated entities of $868 (September 30, 2013 - $761).

(b) Restricted cash is as follows:

	June 30 2014	September 30 2013
Total restricted cash	**$ 929**	$ 1,015

Restricted cash, all held in the Company's house building and investment property joint operations, includes deposits required to secure outstanding guarantees and letters of credit of $98 (September 30, 2013 - $184) and funds held in trust by the project manager of $831 (September 30, 2013 - $831) on the basis of $2 per project dwelling unit. These trust funds are held pursuant to the project joint operation agreements and are meant to provide a contingency fund should any warranty or other claims be made with respect to the houses sold. The project manager may, at its discretion, call on joint operations members for additional contingency fund contributions if and when required, pay for additional project costs contemplated when establishing the fund or release remaining funds back to the joint operation for distribution to the members once they are no longer considered necessary to hold.

9. Amounts Receivable

	June 30 2014	September 30 2013
Straight-line rent receivable	**$ 260**	$ 246
Other	**31**	244
	$ 291	$ 490
Non-current	**$ 248**	$ 235
Current	**43**	255
	$ 291	$ 490

10. Tenant Inducements

	June 30 2014	September 30 2013
Tenant inducements	**$ 432**	$ 432
Less: Accumulated amortization	**(50)**	(33)
	$ 382	$ 399
Non-current	**$ 358**	$ 377
Current	**24**	22
	$ 382	$ 399

Cash inducements paid to tenants to enter into leases are amortized as a reduction in rental revenue over the term of the lease on a straight-line basis.

11. Investments in Syndicated Mortgage Loans, Short-term Investments and Marketable Securities

		June 30 2014	September 30 2013
(a)	Syndicated mortgage loans secured by real property, for remaining terms from 3 to 26 months (September 30, 2013 – 1 to 35 months), bearing interest at a period-end weighted average rate of 9.47% (September 30, 2013 – 9.69%) per annum.		
	Non-current	**$ 372**	$ 968
	Current	**1,139**	341
		$ 1,511	$ 1,309

At June 30, 2014, the Company has a commitment to make additional advances totaling $265 to fund its 30% share of a syndicated mortgage loan in the amount of $988 to complete the construction of 10 townhouse units.

The syndicated mortgage loans can be repaid by the borrowers prior to maturity and are due as follows: $46 in 2014, $1,165 in 2015, and $300 in 2016.

Syndicated mortgage loans to two different borrowers in amounts totaling $426 and $988 individually account for more than 10% of the Company's total syndicated mortgage loan portfolio. In addition, the Company is exposed to concentration of credit risk, whereby approximately 94% of the syndicated mortgage loans relate to projects in the Greater Toronto Area.

		June 30 2014	September 30 2013
(b)	Short-term investments consist of the following:		
	Canadian chartered bank term deposits issued for periods of 90 days or greater, bearing interest at a period-end weighted average rate of 1.4% (2013 – 1.5%).	**$ 38,826**	$ 37,417

		June 30 2014	September 30 2013
(c)	Marketable securities consist of the following:		
	16,000 CIBC non-cumulative Class A preferred shares, Series 27, to yield 5.6% per annum (cost – $400)	**$ 408**	$ 400
	12,000 TD Bank Class A first preferred shares, Series O, to yield 4.85% per annum (cost – $300)	**307**	305
	1,264 (September 30, 2013 – 1,937) Faircourt Split Seven Trust, preferred securities, due December 31, 2014, to yield 6.25% (cost – $13; September 30, 2013 – $19)	**13**	20
	52,840.03 B/1 shares York Select Unit Trust (cost – US$1,000; fair value – US$2,581; September 30, 2013 – fair value – US$1,985)	**2,751**	2,041
		$ 3,479	$ 2,766

12. Loan Payable

Loan payable is as follows:

	June 30 2014	September 30 2013
Secured by an investment property, net of deferred financing fees of $22 (September 30, 2013 – $26)	**$ 3,639**	$ 3,815

Principal repayments of the loan payable are due as follows:

Years ending September 30,	2014	$ 59
	2015	236
	2016	236
	2017	236
	2018	236
	Thereafter	2,658
		3,661
Less: Deferred financing fees		(22)
		$ 3,639

The estimated fair value of loan payable at June 30, 2014 and September 30, 2013 approximates the carrying value because this loan payable bears interest at a variable rate.

The loan payable, secured by an investment property, constitutes the Company's 50% share of a first mortgage loan on its Vaughan, Ontario property. Until February 27, 2013, the loan bore interest at 5% per annum, the Business Development Bank of Canada's Base rate for commercial and industrial loans ("Base rate"). On February 28, 2013 the interest rate was reduced to Base rate minus 1%, or 4% per annum. The loan matures in 2029. The Company has provided the lender with a guarantee of 50% of amounts due under the loan.

13. Income Taxes

(a) Significant components of the income tax provision (recovery) for the nine months ended June 30 are as follows:

	Nine months ended June 30 2014	June 30 2013
Current	$ 56	$ (4,640)
Deferred	45	(867)
	101	(5,507)
Income tax provision on other comprehensive income included in deferred income taxes	95	69
	$ 196	$ (5,438)

(b) The income tax provision (recovery) differs from the amount computed by applying the average statutory Canadian federal and provincial income tax rates to earnings before income taxes. These differences are:

	Nine months ended June 30 2014	June 30 2013
Expected income tax at 26.5% (2013 – 26.5%)	$ 156	$ 358
Reversal of provision no longer considered necessary	–	(5,780)
Other	(55)	(85)
Income tax provision (recovery) in interim consolidated statements of earnings	101	(5,507)
Income tax provision in interim consolidated statements of comprehensive income	95	69
	$ 196	$ (5,438)

(c) Deferred income taxes relate to:

	June 30 2014	September 30 2013
Temporary differences:		
Capital cost allowance in excess of accounting amortization booked	$ 390	$ 346
Costs capitalized for accounting, deducted for income tax	255	296
Unrealized gain on investment property	549	511
Mortgage reserves	69	65
Other comprehensive income	206	111
	$ 1,469	$ 1,329
Comprised of:		
Deferred income tax liabilities reversing after more than 12 months	$ 1,426	$ 1,286
Deferred income tax liabilities reversing within 12 months	43	43
	$ 1,469	$ 1,329

14. Financial Instruments

Fair Values

The fair values of investments traded in active markets, such as marketable securities classified as available-for-sale, are based on the quoted bid price on the interim consolidated balance sheet dates.

The fair values of cash and cash equivalents, restricted cash, amounts receivable, short-term investments and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

The fair value of investments in syndicated mortgage loans approximates their carrying value, as they are repayable in full at the option of the borrower at any time and, for the most part, the interest rate is subject to adjustment.

The Company's accounting policy is to fair value the investment property using the income approach under the "Overall Capitalization Rate Method", which results in this measurement being classified as Level 3 in the fair value hierarchy. Discussion of the valuation process, key inputs and results are held by management on a quarterly basis and changes in Level 3 fair values are analyzed during these discussions

The three levels of the fair value hierarchy, that prioritize the inputs to fair value measurement, are as follows:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and;
Level 3 – inputs that are not based on observable market data.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as described above as at June 30, 2014 and September 30, 2013:

June 30, 2014

	Level 1	Level 2	Level 3	Total
Short-term investments	**$ 38,826**	**$ –**	**$ –**	**$ 38,826**
Marketable securities	**3,479**	**–**	**–**	**3,479**
Investment property	**–**	**–**	**11,056**	**11,056**

September 30, 2013

	Level 1	Level 2	Level 3	Total
Short-term investments	$ 37,417	$ –	$ –	$ 37,417
Marketable securities	2,766	–	–	2,766

Market Risk – Interest Rate Risk

The Company is subject to interest rate fluctuations; however, current low and stable interest rates have lessened the risk associated with such fluctuations. The syndicated mortgage loans are repayable in full at the option of the borrower at any time and, for the most part, are subject to a minimum specified rate of interest or prime plus a specified interest spread if such exceeds the minimum specified rate. The Company's debt comprises a mortgage loan payable on an investment property.

The following interest sensitivity table outlines the potential impact of a 1% change in interest rates on variable rate assets and liabilities for the nine months ended June 30, 2014:

	Carrying Value	Interest Rate Risk			
		-1%		+1%	
Increase (decrease)		Net Earnings	Equity	Net Earnings	Equity
Financial Assets					
Cash and cash equivalents	$ 1,721	$ (9)	$ (9)	$ 9	$ 9
Investment in preferred shares	727	–	152	–	(102)
Financial Liabilities					
Loan payable	3,639	21	21	(21)	(21)
Total increase (decrease)		$ 12	$ 164	$ (12)	$ (114)

Credit and Operational Risks

The Company's credit risk relates to the potential of financial loss resulting from the failure of a borrower or counterparty to fully honour its financial or contractual obligations, such as to repay principal and/or interest on a syndicated mortgage loan. Fluctuations in real property values may increase the risk of default and may also reduce the net realizable value of the collateral real property to the Company. Credit losses occur when the counterparty fails to meet its obligations to the Company and the value realized on sale of the underlying security deteriorates below the carrying amount of the exposure. Credit risk is mitigated through credit enhancement, which is comprised of excess spread and obtaining sufficient real property collateral, as well as monitoring the level of concentration of credit risk from individual borrowers. Furthermore, the Company leverages the credit risk management objectives, policies and procedures of the mortgage syndicator to help mitigate the credit risk. These policies and procedures govern credit administration and arrears management.

Until the closing of the last of its housing inventory in the fourth quarter of 2013, the Company's operational risk related to the potential of losses on housing under construction resulting from any instability in the real estate sector in the Greater Toronto Area and any reduction in the level of activity in the Company's house building joint operations.

The Company's maximum exposure to credit risk are the fair values of cash and cash equivalents, amounts receivable, short-term investments, investment in syndicated mortgage loans and marketable securities.

Liquidity Risk

Liquidity risk is managed by maintaining cash and cash equivalents in excess of projected needs, which includes the funding of commitments under certain of the Company's syndicated mortgage loan investments, as indicated in note 11(a). The Company expects to be able to repay or, if required, obtain an extension on the mortgage loan payable on the investment property, if required, on demand.

The following table summarizes the contractual amounts and maturity periods of the Company's financial liabilities at June 30, 2014 on an undiscounted basis:

Contractual obligations are due as follows:	**Total**	Less than 1 year	1 - 3 years	4 - 5 years	Thereafter
Loan payable (1)	**$ 4,797**	$ 380	$ 731	$ 693	$ 2,993
Accounts payable and accrued liabilities	**583**	533	50	–	–
Syndicated mortgage loan funding commitment (2)	**265**	265	–	–	–
Liabilities and other contractual obligations	**$ 5,645**	$ 1,178	$ 781	$ 693	$ 2,993

(1) A 4% interest rate has been used for the remaining term to maturity.

(2) Based on management's estimate of the timing of borrowers requesting additional funding as per the terms of the original lending agreement. Any such additional funding will form part of the Company's investment in syndicated mortgage loans.

Capital Risk Management

The Company's objectives when managing capital are:

a) to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

b) to provide an adequate return to shareholders by obtaining an appropriate amount of debt, commensurate with the level of risk, to reduce the after-tax cost of capital.

The Company's capital consists of a mortgage loan payable on its investment property and shareholders' equity and, other than the requirement with respect to the mortgage loan, to maintain a long-term debt to tangible equity ratio of 3:1, which condition has been met at June 30, 2014, it is not subject to any externally imposed capital requirements.

The Company sets the amount of capital in proportion to risk. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase shares, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company's objective is met by retaining adequate liquidity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements.

15. Financial Guarantees

At June 30, 2014, the Company has available letters of credit totaling $98 (September 30, 2013 - $185) of which $98 (September 30, 2013 - $185) has been utilized in support of its obligation to complete servicing requirements in connection with various completed house building projects and its investment property.

The Company is contingently liable for its co-investors' share of the obligations in joint operations. At June 30, 2014, the Company's co-investors' share of obligations of such entities comprises liabilities of $791 (September 30, 2013 - $915) and letters of credit of $129 (September 30, 2013 - $440) in support of obligations to complete servicing requirements in connection with its investment property and various completed house building projects. In each case, assets of the joint operation, consisting primarily of cash and cash equivalents, are available to satisfy such obligations.

16. Consolidated Statements of Cash Flows

(a) Non-cash items in operating activities are as follows:

	Nine months ended June 30 2014	Nine months ended June 30 2013
Deferred income taxes	**$ 45**	$ (867)
Amortization of leasing costs	**8**	8
Amortization of deferred financing costs	**4**	4
Amortization of tenant inducements	**17**	16
Accrued interest receivable	**138**	940
Straight-line rent receivable	**(14)**	(80)
Fair value gain on investment property	**(200)**	(797)
	$ (2)	$ (776)

(b) Changes in non-cash balances in operating activities are as follows:

	Nine months ended June 30 2014	Nine months ended June 30 2013
Amounts receivable	**$ 213**	$ 111
Accounts payable and accrued liabilities	**(507)**	(278)
Income tax recoverable	**450**	8,466
Other	**(8)**	103
	$ 148	$ 8,402

(c) Supplementary information consists of the following:

	Nine months ended June 30 2014	Nine months ended June 30 2013
Interest paid	**$ 112**	$ 132
Income taxes paid	**$ 103**	$ 627

17. Related Party Transactions

The following is a summary of the Company's related party relationships:

- certain shareholders, and certain shareholders who are officers and directors or parties related to them, are also participants in all of the house building joint operations;
- the Company is managed by two shareholders who are also officers and directors under a management agreement;
- a shareholder who is also a director is associated with a law firm that provides legal services to the Company and its joint operations;
- a shareholder who is also an officer and a director of the Company serves as a director of a Toronto Stock Exchange listed mortgage loan investment corporation. This corporation is a co-investor with the Company in the syndicated mortgage loans described in note 11(a). Two shareholders who are also officers and directors participate as investors in some of the syndicated mortgage loans in which the Company has invested;
- three companies, one owned by one co-tenant and the other two owned by another co-tenant of the Company's Vaughan, Ontario investment property, lease space in that property; and
- a company owned by a co-tenant of the Company's Vaughan, Ontario investment property acts as the manager of that property and is paid management fees.

Related party transactions are recorded at the amount of consideration agreed to by the parties.

Transactions with related parties during the period were as follows:

	Nine months ended **June 30 2014**	Nine months ended June 30 2013
Management fee expense	**$ 212**	$ 243
Legal services	**–**	3
Rental income	**123**	116

The interim consolidated balance sheets include the following balances with related parties:

	June 30 2014	September 30 2013
Accounts payable and accrued liabilities	**$ 188**	$ 300

18. Contingencies and Commitments

As security for the Company's letter of credit facilities of $98 (September 30, 2013 - $185), the bank holds a general security agreement, a registered general assignment of book debts and a specific assignment of certain amounts due under agreements of purchase and sale.

The Company, from time to time, is subject to legal proceedings brought against it and its subsidiaries. Management does not believe these proceedings in aggregate will have a material adverse effect on the Company's interim consolidated financial position or financial performance.

The Company has commitments to make additional advances in connection with its syndicated mortgage loan investments as explained in note 11(a).

MANAGEMENT'S DISCUSSION and ANALYSIS

As of August 7, 2014

The following Management's Discussion and Analysis ("MD&A") is intended to provide readers with an explanation of the performance of Consolidated HCI Holdings Corporation ("CHCI" or the "Company") for the nine-month periods ended June 30, 2014 and 2013, as well as updating CHCI's most recently issued MD&A, dated February 10, 2014. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of the Company, including the notes thereto, for the nine-month periods ended June 30, 2014 and 2013 and should also be read in conjunction with the audited consolidated financial statements and the MD&A for the fiscal years ended September 30, 2013 and 2012, as set out in the Company's 2013 Annual Report.

Additional information relating to the Company, including the Certification of Interim Filings for the quarter ended June 30, 2014 signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") is also available on the SEDAR website at www.sedar.com.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and has in place information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company and have reviewed and approved this MD&A and the unaudited interim consolidated financial statements as at June 30, 2014 and 2013.

FORWARD-LOOKING STATEMENTS

In various places in the MD&A, there are forward-looking statements reflecting management's current expectations regarding future economic conditions, results of operations, financial performance and other matters affecting the Company. Forward-looking statements include information regarding possible or assumed future results or transactions, as well as statements preceded by, followed by or that include the words "believes," "expects," "anticipates," "estimates," "intends" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of the Company and could cause those results to differ materially from those expressed in any forward-looking statements.

OVERVIEW

The Company's activities in the real estate industry are conducted with others at varying participation rates in joint operations. The interim consolidated financial statements include these ventures on a proportionate consolidation basis. The activities of the Company include the redevelopment of an existing industrial property in Vaughan, Ontario for industrial and commercial uses to lease to others. Until September 30, 2013, the Company conducted activities through various joint operations in the building and selling of new homes on land purchased from others. The Company also invests in syndicated mortgage loans, which are secured by real property developments of other land developers and builders.

REVIEW OF FINANCIAL RESULTS

Results of Operations

Summary of operating results

(Unaudited, in thousands of Canadian dollars, except per share amounts)

	Three months ended		Nine months ended	
	June 30 2014	June 30 2013	**June 30 2014**	June 30 2013
Revenue	**$ 444**	$ 1,957	**$ 1,592**	$ 3,671
Earnings before income taxes	**$ 114**	$ 889	**$ 589**	$ 1,349
Recovery of (provision for) income taxes	**(26)**	(168)	**(101)**	5,507
Net earnings for the period	**$ 88**	$ 721	**$ 488**	$ 6,856
Basic and diluted earnings per share	**$ –**	$ 0.03	**$ 0.02**	$ 0.33

Revenue in the first nine months of fiscal 2014 decreased by $2.07 million compared to the revenue recorded for the same period in fiscal 2013. This decrease is comprised of a decrease in housing sales of $1.29 million, a decrease in interest and other income of $0.297 million, a decrease of $0.597 million in the fair value gain on the investment property, partially offset by an increase in rental revenue of $0.108 million.

House building operations

(Unaudited, in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	June 30 2014	June 30 2013	**June 30 2014**	June 30 2013
Revenue from housing sales	**$ –**	$ 764	**$ –**	$ 1,293
Housing cost of sales	**5**	748	**27**	1,241
Gross profit (loss) from housing sales	**$ (5)**	$ 16	**$ (27)**	$ 52

The Company's share of joint operations revenue from housing sales decreased in the first nine months of fiscal 2014 by $1.29 million compared to the corresponding period in the previous year. There were no house sales in the first nine months of fiscal 2014 as the Company had completed and closed all housing inventory as at September 30, 2013.

Adjustments for cost estimates made in three projects, which had previously sold out, resulted in the Company recording 2014 losses of $47 thousand in the first quarter, recoveries of $25 thousand in the second quarter and losses of $5 thousand in the third quarter in its house building segment.

Rental operations

(Unaudited, in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	June 30 2014	June 30 2013	**June 30 2014**	June 30 2013
Rental revenues	**$ 230**	$ 186	**$ 659**	$ 551
Property operating expenses	**47**	82	**164**	304
Net operating income*	**$ 183**	$ 104	**$ 495**	$ 247

* Net operating income is an important measure used by management to evaluate the operating performance of the investment property. However, it is not defined under IFRS, does not have a standard meaning and may not be comparable with other companies.

The increase in rental revenue of $0.108 million in the first nine months of fiscal 2014 is primarily the result of the commencement of two new tenancies in fiscal 2013, one in the third quarter and one in the fourth quarter.

Property operating expenses in the first nine months of fiscal 2014 decreased by $0.140 million compared to the corresponding period in 2013 resulting from the receipt of a property tax vacancy rebates of $0.018 million and $0.019 million for 2012 and 2013, respectively, a reduction of $0.02 million on 2012 property taxes on the successful appeal of the property assessment and a reduction in other period costs of $0.083 million.

At June 30, 2014, the Company's investment property consists of its 50% share of a 200,000 square foot industrial/commercial building and adjacent 1.25 acre restaurant site in Vaughan, Ontario. As previously reported, this site has been leased to an international restaurant chain for use as a fast food restaurant with drive-through. At September 30, 2013, all regional and municipal approvals for site preparation had been obtained and the tenancy was expected to commence during the second quarter of 2014. However, due to extreme weather conditions, site work was delayed with tenancy now expected to commence in August 2014.

At June 30, 2014, the building occupancy rate was 68%, unchanged from September 30, 2013. At June 30, 2013, the occupancy rate was 65%.

Interest and other income

Interest and other income decreased by $0.030 million for the nine months ended June 30, 2014 compared to the corresponding period in the previous year. Throughout the last three quarters of fiscal 2013 the Company substantially increased its investment in term deposits using cash generated from the repayment of syndicated mortgage loans, cash distributions from its joint ventures and a refund of overpaid income tax installments. These term deposits generated increased income in the first quarter of 2014 compared to 2013 which was offset over the second and third quarters of 2014 by a reduction in interest income due to the reduced investment in higher rate syndicated mortgage loans and reducing yields on term deposits.

General and administrative expenses

General and administrative expenses increased by $0.055 million for the nine months of 2014 compared to the corresponding period in the previous year. Professional fees increased by $0.091 million as a result of the Company obtaining advice on certain tax related matters while other expense categories experienced a reduction, in aggregate, of $0.036 million.

Income taxes

The income tax provision for the first nine months of fiscal 2014 of $0.101 million (2013 – a recovery of $5.507 million) has been computed by applying the average statutory Canadian federal and provincial income tax rate of 26.5% (2013 – 26.5%) to earnings before income taxes. During the second quarter of 2013, the Company recorded a recovery of prior years' income taxes of $5.78 million, the result of confirmation that certain prior year tax provisions were no longer considered necessary.

FINANCIAL CONDITION

(Unaudited, in thousands of Canadian dollars)

	June 30 2014	September 30 2013
Investment property	**$ 11,056**	$ 10,705
Cash and cash equivalents	**1,721**	3,082
Restricted cash	**929**	1,015
Amounts receivable	**291**	490
Investment in syndicated mortgage loans	**1,511**	1,309
Short-term investments	**38,826**	37,417
Marketable securities	**3,479**	2,766
Income tax recoverable	**–**	445
Tenant inducements	**382**	399
Other assets	**90**	82
Total assets	**$ 58,285**	$ 57,710
Long-term financial liability:		
Loan payable on investment property	**$ 3,639**	$ 3,815

ASSETS AND LIABILITIES

During the first nine months of fiscal 2014, the Company realized cash from interest earned on its investments in syndicated mortgage loans and cash and short-term investments, principal repayments on syndicated mortgage loans and its investment property operation. The majority of this cash was used to fund investment property operations, further funding commitments advanced under an existing syndicated mortgage loan and general and administrative costs.

A condition of the mortgage loan on the Company's Vaughan, Ontario income-producing property is that the co-tenancy maintains a long-term debt to tangible equity ratio of 3:1. As at June 30, 2014, this condition has been met.

At June 30, 2014, the Company's real estate holdings consist of its 50% share of the investment property in Vaughan, Ontario referred to above and one residential lot in Mississauga, Ontario.

OUTSTANDING SHARE DATA

Authorized capital stock consists of an unlimited number of Class B voting shares without par value. Issued and outstanding as at June 30, 2014 are 20,575,866 shares, unchanged from October 1, 2012.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

(Unaudited, in thousands of Canadian dollars)

	Nine months ended June 30 2014	June 30 2013
Cash provided by (used in):		
Operating activities	**$ 634**	$ 15,407
Investing activities	**(1,817)**	(13,011)
Financing activities	**(178)**	(179)
(Decrease) increase in cash and cash equivalents during the period	**(1,361)**	2,217
Cash and cash equivalents, beginning of the period	**3,082**	2,397
Cash and cash equivalents, end of the period	**$ 1,721**	$ 4,614

Cash and cash equivalents decreased in the first nine months of 2014 by $1.361 million primarily as a result of further advances on an existing syndicated mortgage loan, additions to and principal payments on the mortgage loan on the Company's investment property, additional investment in short-term investments partially offset by proceeds of repayments of investments in syndicated mortgage loans.

The Company continues to use cash flows to invest in money market investments, to fund its investment property and to fund general and administrative costs. The Company's cash and cash equivalents serve to provide the Company with sufficient liquidity to carry on its business activities.

CONTRACTUAL OBLIGATIONS

The following table summarizes the contractual amounts and maturity periods of the Company's financial liabilities at June 30, 2014 on an undiscounted basis:

(Unaudited, in thousands of Canadian dollars)

Contractual obligations are due as follows:	**Total**	Less than 1 year	1 - 3 years	4 - 5 years	Thereafter
Loan payable (1)	**$ 4,797**	$ 380	$ 731	$ 693	$ 2,993
Accounts payable and accrued liabilities	**583**	533	50	–	–
Syndicated mortgage loan funding commitment (2)	**265**	265	–	–	–
Liabilities and other contractual obligations	**$ 5,645**	$ 1,178	$ 781	$ 693	$ 2,993

(1) A 4% interest rate has been used for the remaining term to maturity.

(2) Based on management's estimate of the timing of borrowers requesting additional funding as per the terms of the original lending agreement. Any such additional funding will form part of the Company's investment in syndicated mortgage loans.

TRANSACTIONS WITH RELATED PARTIES

The Company has entered into transactions with other entities in which the following individuals hold management positions as noted in the following tables:

(in thousands of dollars)

June 30, 2014	Note	Receives management fees from the Company	Receives fees for legal services provided to the Company	Receives property management fees to manage the investment property	Pays rent to the Company for space leased in the Company's investment property
Marc Muzzo	(1) (6)	**$ 94**	**$ –**	**$ –**	**$ –**
Stanley Goldfarb	(2) (6)	**94**	**–**	**–**	**–**
Rudolph P. Bratty	(3)	**–**	**–**	**–**	**–**
Dani Cohen	(4)	**–**	**–**	**24**	**116**
Mark Kornhaber	(5)	**–**	**–**	**–**	**7**

June 30, 2013	Note	Receives management fees from the Company	Receives fees for legal services provided to the Company	Receives property management fees to manage the investment property	Pays rent to the Company for space leased in the Company's investment property
Marc Muzzo	(1) (6)	$ 112	$ –	$ –	$ –
Stanley Goldfarb	(2) (6)	112	–	–	–
Rudolph P. Bratty	(3)	–	3	–	–
Dani Cohen	(4)	–	–	18	116
Mark Kornhaber	(5)	–	–	–	–

(1) Marc Muzzo is a shareholder, director and officer of the Company who holds management positions in entities that have provided management services to the Company as noted in the tables above. He is also a co-investor with the Company in some of its syndicated mortgage loans and all its house building joint operations.

(2) Stanley Goldfarb is a shareholder, director and officer of the Company who holds a management position in an entity that has provided management services to the Company as noted in the tables above. He is also a co-investor with the Company in some of its syndicated mortgage loans and a director of a Toronto Stock Exchange listed company that is a co-investor in all of the Company's syndicated mortgage loans.

(3) Rudolph P. Bratty is a shareholder and director of the Company who is a co-investor in one of the Company's house building joint operations and who exerts significant influence on a law firm that is paid legal fees for legal services to the Company as noted in the tables above.

(4) Dani Cohen is a co-investor in the Company's investment property. He is paid management fees for management services to the property and pays rent for space leased in the property as noted in the tables above.

(5) Marc Kornhaber is a co-investor in the Company's investment property. He pays rent for space leased in the property as noted in the tables above.

(6) Unpaid at the end of the period and included in accounts payable and accrued liabilities.

RISK MANAGEMENT

Market Risk – Interest Rate Risk

The Company is subject to interest rate fluctuations; however, current low and stable interest rates have lessened the risk associated with such fluctuations. The syndicated mortgage loans are repayable in full at the option of the borrower at any time and, for the most part, are subject to a minimum specified rate of interest or prime plus a specified interest spread if such exceeds the minimum specified rate. The Company's debt comprises a mortgage loan payable on an investment property.

Credit and Operational Risks

The Company's credit risk relates to the potential of financial loss resulting from the failure of a borrower or counterparty to fully honour its financial or contractual obligations, such as to repay principal and/or interest on a syndicated mortgage loan. Fluctuations in real property values may increase the risk of default and may also reduce the net realizable value of the collateral real property to the Company. Credit losses occur when the counterparty fails to meet its obligations to the Company and the value realized on sale of the underlying security deteriorates below the carrying amount of the exposure. Credit risk is mitigated through credit enhancement which is comprised of excess spread and obtaining sufficient real property collateral, as well as monitoring the level of concentration of credit risk from individual borrowers. Furthermore, the Company leverages the credit risk management objectives, policies and procedures of the mortgage syndicator to help mitigate the credit risk. These policies and procedures govern credit administration and arrears management.

Until the closing of the last of its housing inventory in the last quarter of 2013, the Company's operational risk related to the potential of losses on housing under construction resulting from any instability in the real estate sector in the Greater Toronto Area and any reduction in the level of activity in the Company's house building joint operations.

The Company's maximum exposure to credit risk are the fair values of cash and cash equivalents, amounts receivable, short-term investments, investment in syndicated mortgage loans and marketable securities.

At the present time, management is satisfied the Company's receivables will be collected in full and that land and housing inventories are valued at the lower of cost and net realizable value.

Liquidity Risk

Liquidity risk is managed by maintaining cash and cash equivalents in excess of projected needs, which includes the funding of commitments under certain of the Company's syndicated mortgage loan investments, as indicated in note 11(a) to the unaudited interim consolidated financial statements for the nine-month period ended June 30, 2014. The Company expects to be able to repay or, if required, obtain an extension on the loan payable on the investment property, if required, on demand.

Capital Risk Management

The Company's objectives when managing capital are:

a) to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
b) to provide an adequate return to shareholders by obtaining an appropriate amount of debt, commensurate with the level of risk, to reduce the after-tax cost of capital.

The Company's capital consists of a mortgage loan payable on its investment property and shareholders' equity and, other than the requirement with respect to the mortgage loan, to maintain a long-term debt to tangible equity ratio of 3:1, which condition has been met at June 30, 2014; it is not subject to any externally imposed capital requirements.

The Company sets the amount of capital in proportion to risk. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase shares, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company's objective is met by retaining adequate liquidity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements.

ENVIRONMENTAL RISKS

As an owner of real property, the Company is subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that the Company could be liable for costs of removal and remediation of certain hazardous toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect the Company's ability to sell such real property or to borrow using such real property as collateral and, potentially, could result in claims against the Company. The Company is not aware of any material environmental liabilities at the present time.

CONTROLS AND PROCEDURES

At June 30, 2014, the CEO and the CFO ("certifying officers") of the Company have designed disclosure controls and procedures ("DC&P") to provide reasonable assurance that information required to be disclosed in its various reports is recorded, processed, summarized and reported accurately and they have designed internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its interim consolidated financial statements for external purposes in accordance with IFRS. All ICFR are either completed or reviewed by the CFO with involvement from the CEO and Vice-President as deemed necessary. Other than the CFO, the Company has only one employee who is engaged in accounting and recordkeeping functions and who is directly supervised by the CFO.

The certifying officers have limited the scope of the design of the DC&P and ICFR to exclude controls, policies and procedures of the Company's non-publicly accountable, proportionately consolidated entities ("the entities"). Management of the entities is distinct from that of the Company and, as such, the Company does not have sufficient access to the entities to design and evaluate controls, policies and procedures carried out by these entities. The Company is satisfied that, considering its own quarterly review and analysis of financial information provided by the entities and discussion with the entities' management, material errors or omissions in the entities' financial reporting for consolidation purposes would come to the attention of the Company's management and be corrected prior to consolidation.

The following summary of financial information as at June 30, 2014 and September 30, 2013 and for the nine-month periods ended June 30, 2014 and June 30, 2013 relates to the Company's proportionately consolidated entities, comprising all its investments in its investment property and residential construction segments:

(Unaudited, in thousands of Canadian dollars)

	June 30 2014	September 30 2013
Assets	**$ 15,045**	$ 13,393
Liabilities	**3,971**	4,369
	$ 11,074	$ 9,024

	Three months ended		Nine months ended	
	June 30 2014	June 30 2013	**June 30 2014**	June 30 2013
Revenue	**$ 252**	$ 956	**$ 865**	$ 1,870
Expenses	**92**	322	**311**	888
Earnings	**$ 160**	$ 634	**$ 554**	$ 982

	Nine months ended	
	June 30 2014	June 30 2013
Cash provided by (used in)		
Operating activities	**$ 532**	$ 484
Investing activities	**(74)**	(95)
Financing activities	**(178)**	(178)

The certifying officers have determined there were no changes in the Company's ICFR that occurred during the nine months ended June 30, 2014 that have significantly affected, or are reasonably likely to significantly affect, the Company's ICFR.

NEW ACCOUNTING POLICIES

The following changes in accounting policies were implemented by the Company during the nine-month period ended June 30, 2014:

(a) IFRS 10 – Consolidated Financial Statements

This standard requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation – Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The Company assessed its consolidation conclusions effective October 1, 2013 and determined that adoption of IFRS 10 did not result in any change in the consolidation status of any of its investees.

(b) IFRS 11 – Joint Arrangements

This standard requires an entity to classify its interest in a joint arrangement as a joint venture or joint operation. The Company recognizes its share of the assets, liabilities, revenues and expenses of its joint operations. The Company does not have any investments classified as a joint venture. The Company has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any change in the accounting policy for its joint arrangements.

(c) IFRS 12 – Disclosure of Interests in Other Entities

This standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, and non-consolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities. The Company adopted IFRS 12 effective October 1, 2013. The adoption of IFRS 12 results in the disclosures of condensed financial information of associates, subsidiaries and joint arrangements in the Company's consolidated financial statements for the year ending September 30, 2014.

(d) IFRS 13 – Fair Value Measurement

This standard is a comprehensive standard for fair value measurement and disclosure for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. The Company adopted IFRS 13 effective October 1, 2013, on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments.

FUTURE ACCOUNTING CHANGES

Accounting Standards Issued and Yet to Be Applied

Unless otherwise noted, the following new standards and amendments to existing standards apply to annual periods beginning on or after January 1, 2014 with earlier adoption permitted. The Company has not yet assessed the impact of these new standards and amendments on its consolidated financial statements.

(a) IFRS 9 – Financial Instruments

This standard was issued in November 2009 and is effective for annual periods beginning on or after January 1, 2015. The standard was subsequently amended to remove the mandatory adoption date. The standard addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

(b) IFRIC 21 – Levies

This is an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event giving rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is applicable to annual reporting periods beginning on or after January 1, 2014.

FINANCIAL INSTRUMENTS

Fair Value

The fair values of investments traded in active markets, such as marketable securities classified as available-for-sale, are based on the quoted bid price on the interim consolidated balance sheet dates.

The fair values of cash and cash equivalents, restricted cash, amounts receivable, short-term investments and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

The fair value of investments in syndicated mortgage loans approximates their carrying value, as they are repayable in full at the option of the borrower at any time and, for the most part, the interest rate is subject to adjustment.

The Company's accounting policy is to fair value the investment property using the income approach under the "Overall Capitalization Rate Method", which results in this measurement being classified as Level 3 in the fair value hierarchy. Discussion of the valuation process, key inputs and results are held by management on a quarterly basis and changes in Level 3 fair values are analyzed during these discussions.

The three levels of the fair value hierarchy, that prioritize the inputs to fair value measurement, are as follows:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – inputs that are not based on observable market data.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as described above as at June 30, 2014 and September 30, 2013:

June 30, 2014

	Level 1	Level 2	Level 3	Total
Short-term investments	**$ 38,826**	**$ –**	**$ –**	**$ 38,826**
Marketable securities	**3,479**	**–**	**–**	**3,479**
Investment property	**–**	**–**	**11,056**	**11,056**

September 30, 2013

	Level 1	Level 2	Level 3	Total
Short-term investments	$ 37,417	$ –	$ –	$ 37,417
Marketable securities	2,766	–	–	2,766

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of the financial condition and results of operations of the Company are based on the interim consolidated financial statements, which are prepared in accordance with IFRS. The preparation of interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts in the interim consolidated financial statements. Estimates and assumptions are evaluated on an ongoing basis. Estimates are based on historical experience and other assumptions that management believes are reasonable and appropriate in the circumstances. Actual results could differ from those estimates.

Management believes the most critical accounting estimates are as follows:

Impairment of Investments in Syndicated Mortgage Loans

The Company reviews its investments in individual syndicated mortgage loans on a regular basis to evaluate the risk of default on any outstanding loan, which would result in the ultimate realization of less than the balance owing. Factors such as the prospect for completion of the development and sale of the underlying real property security and the present value of estimated future cash flows from the project are taken into consideration when estimating impairment.

Fair Value of Investment Property

The Company's investment property is comprised of two components, a rental building and adjoining rental land. For the nine months ended June 30, 2014, fair values were determined using the "Overall Capitalization Method." This method applies overall capitalization rates, as detailed in note 6 to the accompanying interim unaudited consolidated financial statements, to stabilized net operating income and incorporates allowances for vacancy.

For the year ended September 30, 2013, the fair value of the investment property was determined by qualified external valuation professionals. The valuation of the building was done using the "Discounted Cash Flow Method" in which the revenue and expenses are projected over the anticipated term of the investment. The valuation of the rental land was done using the "Overall Capitalization Rate Method" whereby the stabilized net operating income is capitalized at the requisite overall capitalization rate. Capitalization rates employed are detailed in note 6 to the accompanying interim consolidated financial statements.

Income Taxes

The Company is subject to income taxes in one jurisdiction. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax provisions of future periods. The measurement of deferred income tax liabilities at the interim consolidated balance sheet dates requires management to make estimates and assumptions regarding the timing of when temporary differences are expected to reverse. Actual results could differ from those estimates.

OFF-BALANCE SHEET ARRANGEMENTS

Financial Guarantees

At June 30, 2014, the Company has available letters of credit totaling $98 (September 30, 2013 - $185) of which $98 (September 30, 2013 - $185) has been utilized in support of its obligation to complete servicing requirements in connection with various completed house building projects and its investment property.

The Company is contingently liable for its co-investors' share of the obligations in joint operations. At June 30, 2014, the Company's co-investors' share of obligations of such entities comprises liabilities of $791 (September 30, 2013 - $915) and letters of credit of $129 (September 30, 2013 - $440) in support of obligations to complete servicing requirements in connection with its investment property and various completed house building projects. In each case, assets of the joint operation, consisting primarily of cash and cash equivalents, are available to satisfy such obligations.

Commitment

At June 30, 2014, the Company has a commitment to make additional advances totaling $265 to fund its 30% share of a syndicated mortgage loan in the amount of $988 to complete the construction of 10 townhouse units.

OUTLOOK

As at September 30, 2013, the Company had completed and closed its remaining housing inventory and management does not intend to invest further in housing construction.

The Company's remaining real estate holdings consist of the investment property described above under "Results of Operations – Rental Operations." Management is continuing with its efforts to complete the leasing of this investment property, has been receiving expressions of interest to lease remaining vacant space in the building and has been working with prospective tenants but, beyond the completed leasing activity described in the MD&A for the years ended September 30, 2013 and 2012 that brought the occupancy rate to 68% at September 30, 2013, to June 30, 2014 no new space has been let.

Management continues to closely monitor the Company's investments in syndicated mortgage loans. No losses have been realized on any of the Company's investments and management believes they are adequately secured by the underlying real property security.

Management and the Board of Directors continue to assess the basis for the Company's ongoing operations with a view to maximizing shareholder value.

CORPORATE DIRECTORY

DIRECTORS

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Barristers and Solicitors

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Logpin Investments Limited

Marc Muzzo
Director
Marel Contractors

* Audit Committee
** Chairman of the Board and
the Audit Committee

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& Treasurer

Marc Muzzo
Vice-President

John H. Craig
Secretary

Arnold J. Resnick
Chief Financial Officer

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